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SUBJECT: GAS PRICE INCREASE FUELS INFLATION, UNHAPPINESS

¶1. (U) The GVN announced new fuel price increases on Monday, July 21. Gasoline prices went up 31 percent, diesel up 14 percent, and petroleum products kerosene and mazut went up 44 and 37 percent respectively. The increase follows an 11 percent hike on gas and a 36 percent increase on diesel implemented last February. The government-controlled media quoted Minister of Finance Vu Van Ninh as saying the increase was both to discourage smuggling to countries where fuel is more expensive and to ease pressure on the state budget.

¶2. (U) Analysts are predicting that the move will increase headline inflation 1 to 2 percent, although most seem to be maintaining the stance that overall inflation will still ease towards the end of the year. Bond yields skyrocketed by up to 200 basis points following the announcement, but sellers were hard to come by. On the currency black market, demand for dollars spiked, pushing the dollar rate back up to 17,500 dong from around 16,800, while the official exchange rate is about 16,600. The stock market, showing newfound sensitivity to the price of oil, dropped to 470 after a series of gains in the weeks prior.

¶3. (SBU) Comment: The hike came as a surprise. The government had previously been saying it would not raise prices for the rest of the year. Moreover, many observers thought the GVN would be reluctant to raise prices in light of record inflation numbers. Trying to maintain artificially low fuel prices in the face of spiking global oil prices, however, is undoubtedly an expensive subsidy difficult to afford at a time when the GVN is trying to rein in fiscal spending. This price hike will contribute to Vietnam's already high inflation, but may not register in the monthly numbers until the August figures are released.

¶4. (SBU) Continued comment: Naturally, the public is not happy about the blow to the wallet caused by an overnight nearly one-third price increase. For months it has felt the steady pain of high prices for food and fuel. Vietnam is already facing 26 percent y-o-y inflation. While the GVN is surely aware of the protests in neighboring Burma not long ago, we expect its own calculations are that the Vietnamese people will bear the pain. Rather than take to the streets, the motorbike-loving populace may be forced to cut down on nightly joy riding. End comment.

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